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RUEHBJ/AMEMBASSY BEIJING PRIORITY 0076

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UNCLAS SECTION 01 OF 02 ZAGREB 000812

SENSITIVE

SIPDIS

DEPARTMENT FOR EEB/TPP/IPE

E.O. 12958: N/A

TAGS: ECON ETRD PGOV SOCI HR

SUBJECT: NIKE REPRESENTATIVE DESCRIBES COUNTERFEIT GOODS
SMUGGLING IN CROATIA

¶1. Summary. Nike's brand protection manager for Croatia met with Econ and FCS officers at the American Chamber of Commerce in Zagreb in late November to discuss patterns of counterfeit goods smuggling and quality of enforcement as it faces growing demand for smuggled counterfeit apparel throughout the region. He said that Croatia's geographic position is extremely advantageous to goods smugglers, but the response and capacity of law enforcement is uneven at best. As a result of this meeting, AmCham and embassy representatives decided to form an IPR working group among AmCham's member companies to share information on counterfeit goods production/smuggling, and to look for opportunities to raise awareness of the issue with Croatian government and law enforcement circles. End summary.

¶2. With the assistance of the Nike representative, customs officials at the port of Rijeka recently seized 20 shipping containers filled with thousands of pairs of counterfeit Nike shoes destined for markets throughout Europe. The shoes are now awaiting destruction at a warehouse, but the seizure highlights a growing trade through Croatia in counterfeit apparel, according to Nike. While Nike has not identified Croatia as a major producer of fake goods, its geographic position makes it a desirable entry point for goods headed to customers both close by, such as the large counterfeit goods markets in Brcko, Bosnia-Herzegovina and in New Belgrade, Serbia, as well as to markets as far away as the UK. Most of the counterfeit goods originate in China.

¶3. Nike has established relationships with police and customs officials throughout Croatia, who alert Nike when they intercept a suspicious shipment. The Nike rep then goes, sometimes in the middle of the night, to inspect the merchandise and tell Croatian officials whether the goods are fake. He admitted that this identification is not always easy and sometimes requires him to send a sample for closer examination by Nike headquarters. Once identified as fakes, the shoes are held in a warehouse while he arranges for their destruction. But the smugglers adapt quickly to avoid his interference. There have been recent cases of shipments of "blank" shoes, with a courier bringing in suitcases full of the famous Nike "swoosh" later on.

¶4. Often the Nike representative secures the cooperation of the trucking or shipping company involved to help identify future shipments as a means of reassuring authorities of the shipper's innocence in the crime. He also works closely with Nike's competitors Adidas, Puma, and others, recognizing the mutual goal of stopping the counterfeit goods trade.

¶5. Unfortunately, Nike often comes up against regulatory and resource deficiencies on the Croatian side that hinder IPR enforcement. Our contact admitted that his seizures are only

quasi-legal since the designs being counterfeited are only rarely covered by Croatian patent law. This is because of the lengthy procedure to register individual designs with Croatian authorities (often taking over a year). He explained it is impossible for an international apparel manufacturer, issuing hundreds of new products over four seasons, to comply with the letter of Croatian law on registration of designs.

¶6. Law enforcement resources and political will are also severely lacking. The recent successes at the port of Rijeka have been due solely to the energy and dedication of three Croatian customs inspectors who have been willing to make the effort to identify the shipments and work with the apparel company representatives to stem the tide of counterfeit goods. At other points of entry, especially along the long land borders with Serbia and Bosnia Herzegovina, cooperation is mixed at best. Even in Zagreb, the will among law enforcement to fight trafficking in counterfeit goods is sometimes weak. Our Nike contact told us he reported to the police weeks ago the name and address of an individual offering counterfeit goods for sale over the internet, but the police have yet to act.

¶7. COMMENT: In discussions on international trade, Croatia is often quick to mention that the port of Rijeka is three days closer to Asia and the Middle East than the port of Rotterdam. This advantage has clearly been noticed by counterfeit goods manufacturers as well. Croatia also struggles with a legal and law enforcement capacity that is often lacking or out-matched. This is especially true along the Bosnian border, where understaffed Croatian units face smugglers with years of experience in trafficking of goods;

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experience in many cases honed during the Yugoslav wars, when smuggling was a matter of life or death. These factors combine to suggest the transport of counterfeit goods through Croatia will be tough to combat. END COMMENT

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